

CADDO PARISH SEWERAGE DISTRICT NO. 2

CADDO PARISH, LOUISIANA

JUNE 30, 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **FEB 01 2012**

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CADDO PARISH, LOUISIANA

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CADDO PARISH, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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December 27, 2011

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities and each major fund of Caddo Parish Sewerage District No. 2, a component unit of the Parish of Caddo, Louisiana as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Caddo Parish Sewerage District No. 2 as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2011 on our consideration of the District's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the



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methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caddo Parish Sewerage District No. 2's financial statements as a whole. The supplementary information, except for the Schedule of Insurance in Force, on which we express no opinion, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Heard, McElroy & Vestal, LLC

REQUIRED SUPPLEMENTARY INFORMATION:

MANAGEMENT'S DISCUSSION

AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the financial performance of Caddo Parish Sewerage District No. 2 provides an overview of the District's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the District's financial statements, which begin on Page 7.

FINANCIAL HIGHLIGHTS

The District's net assets decreased by \$129,765 or 26%.

The District's total revenues were \$287,552 in 2011 compared to \$286,879 in 2010.

During the year ended June 30, 2011, the District had total expenses, including depreciation, of \$417,317.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on Pages 7 and 8) provide information about the activities of the District as a whole. Fund financial statements start on Page 9. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The District is a component unit of the Parish of Caddo, Louisiana because the Parish must approve all officials appointed to the District's Board of Supervisors. The accompanying financial statements present information only on the funds maintained by the District.

Reporting the Funds Maintained by the District as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the funds maintained by the District as a whole and about its activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. The District's net assets – the difference between assets and liabilities – are one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, we record the funds maintained by the District as business-type activities:

Business-type activities – revenues earned, resources provided for, and expenses incurred for the provision of sewerage services to the District's general public.

Reporting the Funds Maintained by the District

Our analysis of the major funds maintained by the District begins on Page 9. The fund financial statements provide detailed information about the funds maintained by the District. The District's funds use the following accounting approaches.

Proprietary fund – All of the District's expenses incurred for the provision of sewerage services are reported in a proprietary fund, which focuses on measuring the total costs, including depreciation, of the service, and primarily recovering those costs through user charges or other revenue sources. This fund is reported using the accrual basis of accounting, which measures revenue when earned and expenses when incurred.

THE FUNDS MAINTAINED BY THE DISTRICT AS A WHOLE

The District's total net assets changed from a year ago, decreasing from \$504,378 to \$374,613. Our analysis below focuses on key elements of the total funds for the 2011 and 2010 fiscal years.

Table 1
Net Assets

Government-Wide Activities

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|------------------|------------------|
| Current assets | 134,346 | 211,118 |
| Capital assets | 574,915 | 667,520 |
| Other assets | <u>2,481</u> | <u>2,480</u> |
| Total assets | 711,742 | 881,118 |
| Current liabilities | 61,001 | 58,328 |
| Noncurrent liabilities | <u>276,128</u> | <u>318,412</u> |
| Total liabilities | 337,129 | 376,740 |
| Net assets: | | |
| Investments in capital assets | 574,915 | 667,520 |
| Restricted for debt service | 15,384 | 21,444 |
| Unrestricted | <u>(215,686)</u> | <u>(184,586)</u> |
| Total net assets | <u>374,613</u> | <u>504,378</u> |

Net assets of the funds maintained by the District decreased by \$129,765.

Table 2
Change in Net Assets

| <u>Government-Wide Activities</u> | <u>2011</u> | <u>2010</u> |
|-----------------------------------|------------------|------------------|
| Revenues | | |
| Charges for services | 180,051 | 182,288 |
| Ad valorem taxes | 104,439 | 99,367 |
| Other | <u>3,062</u> | <u>5,224</u> |
| Total revenues | 287,552 | 286,879 |
| Expenses | | |
| General governmental | <u>417,317</u> | <u>556,606</u> |
| (Decrease) in net assets | <u>(129,765)</u> | <u>(269,727)</u> |

For the funds maintained by the District, total revenues increased \$673 from total revenues in 2010 of \$286,879, to total revenues of \$287,552 in 2011. Service revenues decreased \$2,237, from service revenue in 2010 of \$182,288 to service revenue of \$180,051 in 2011.

In addition, ad valorem tax revenues increased by \$5,072 as a result of millage increase in 2010. Other revenue declined by \$2,162 as the result of a decrease in interest income.

Total expenses of the District decreased by \$139,289 in 2011, resulting from a decrease in sewer line repair cost of \$129,146.

CAPITAL ASSETS

At the end of 2011, the District had invested \$574,915 in capital assets from those funds maintained by the District.

Table 3
Capital Assets At Year End

| <u>Government-Wide Activities</u> | <u>2011</u> | <u>2010</u> |
|-----------------------------------|--------------------|--------------------|
| Office furniture and fixtures | 4,299 | 4,299 |
| Office equipment | 19,070 | 19,070 |
| Building and improvements | 50,132 | 50,132 |
| Sewerage collection system | 1,075,803 | 1,075,803 |
| Treatment and disposal plant | <u>1,194,361</u> | <u>1,194,361</u> |
| | 2,343,665 | 2,343,665 |
| Less-accumulated depreciation | <u>(1,825,001)</u> | <u>(1,732,396)</u> |
| | 518,664 | 611,269 |
| Real estate and right-of-ways | <u>56,251</u> | <u>56,251</u> |
| | <u>574,915</u> | <u>667,520</u> |

There were no capital asset additions during 2011 or 2010.

CERTIFICATES OF INDEBTEDNESS

The District issued new certificates of indebtedness in the amount of \$400,000 in July 2009. In addition to paying the costs of issuance, the debt proceeds were used to pay off the outstanding principal balance of \$96,000 on the 2003 certificates, and to help finance the cost of sewer line repairs. After regularly scheduled debt service payments of \$41,283 in principal and \$17,677 in interest, the District's outstanding certificates of indebtedness amounted to \$318,412 at June 30, 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the finances for those funds maintained by the District and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Caddo Parish Sewerage District No. 2 at 4126 Rainier, Shreveport, Louisiana, 71107.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF NET ASSETS

JUNE 30, 2011

| <u>A S S E T S</u> | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| <u>Current assets:</u> | |
| Cash and cash equivalents-Note 5 | 77,557 |
| Certificates of deposit | 32,973 |
| Accounts receivable | 14,734 |
| Prepaid expenses | <u>9,082</u> |
| Total current assets | 134,346 |
| Property, plant and equipment | 574,915 |
| Utility deposits | <u>2,481</u> |
| Total assets | <u>711,742</u> |
| <u>LIABILITIES AND NET ASSETS</u> | |
| <u>Liabilities:</u> | |
| Accounts payable | 5,367 |
| Customer deposits | 13,350 |
| Current portion of certificate of indebtedness | <u>42,284</u> |
| Total current liabilities | 61,001 |
| Certificate of indebtedness-less current portion | <u>276,128</u> |
| Total liabilities | 337,129 |
| <u>Net assets:</u> | |
| Invested in capital assets | 574,915 |
| Restricted for debt service | 15,384 |
| Unrestricted | <u>(215,686)</u> |
| Total net assets | <u>374,613</u> |
| Total liabilities and net assets | <u>711,742</u> |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Business-Type Activities</u> |
|---|-------------------------------------|
| <u>Expenses:</u> | |
| <u>Business-type activities:</u> | |
| Sewerage services | <u>399,640</u> |
| Total expenses | 399,640 |
| <u>Program revenue:</u> | |
| Charges for services | <u>180,051</u> |
| <u>Net revenue</u> | (219,589) |
| <u>General revenue:</u> | |
| Ad valorem taxes | 104,439 |
| State revenue sharing | 2,046 |
| Interest | <u>1,016</u> |
| | 107,501 |
| <u>General expenses:</u> | |
| Interest expense | <u>17,677</u> |
| <u>Change in net assets</u> | (129,765) |
| <u>Net assets-beginning of year</u> | <u>504,378</u> |
| <u>Net assets-end of year</u> | <u>374,613</u> |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

BALANCE SHEET-PROPRIETARY FUND

JUNE 30, 2011

| <u>ASSETS</u> | <u>Enterprise</u> |
|--------------------------------------|-------------------|
| Cash and cash equivalents-Note 5 | 62,173 |
| Cash restricted for debt service | 15,384 |
| Certificates of deposit | 32,973 |
| Accounts receivable | 14,734 |
| Prepaid expenses | 9,082 |
| Property, plant and equipment-Note 3 | 574,915 |
| Utility deposits | <u>2,481</u> |
| Total assets | <u>711,742</u> |
| <u>LIABILITIES AND NET ASSETS</u> | |
| <u>Liabilities:</u> | |
| Accounts payable | 5,367 |
| Customer deposits | 13,350 |
| Certificate of indebtedness-Note 4 | <u>318,412</u> |
| Total liabilities | 337,129 |
| <u>Net assets:</u> | |
| Contributions from other funds | 1,189,385 |
| Accumulated deficit | <u>(814,772)</u> |
| Total net assets | <u>374,613</u> |
| Total liabilities and net assets | <u>711,742</u> |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS-

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Enterprise</u> |
|------------------------------------|-------------------|
| <u>Operating revenues:</u> | |
| Sewerage fees | 161,820 |
| Account activation fee | 490 |
| Service charge fee | 10,212 |
| Other | <u>7,529</u> |
| Total operating revenues | 180,051 |
| <u>Operating expenses:</u> | |
| Accounting and auditing fees | 9,193 |
| Attorney fees | 5,394 |
| Bad debt expense | 1,423 |
| Board of supervisors' fees | 3,300 |
| Contract labor | 7,905 |
| Data processing | 1,713 |
| Depreciation | 92,605 |
| Dues and subscriptions | 250 |
| Education expense | 1,179 |
| Insurance | 18,567 |
| Laboratory fees | 2,370 |
| License and permits | 1,003 |
| Line rentals | 250 |
| Miscellaneous | 11,025 |
| Office supplies | 4,500 |
| Payroll taxes | 3,430 |
| Plant supplies | 4,790 |
| Postage | 1,697 |
| Repairs and maintenance | 136,129 |
| Salaries | 48,800 |
| Security | 1,443 |
| Telephone | 5,667 |
| Treatment plant operation contract | 13,497 |
| Utilities | <u>23,510</u> |
| Total operating expenses | <u>399,640</u> |
| <u>(Loss) from operations</u> | (219,589) |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS-
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Enterprise</u> |
|--|-------------------|
| <u>Nonoperating revenues:</u> | |
| Ad valorem taxes-Note 2 | 104,439 |
| State revenue sharing | 2,046 |
| Interest | <u>1,016</u> |
| Total nonoperating revenues | 107,501 |
| <u>Nonoperating expenses:</u> | |
| Interest | <u>17,677</u> |
| <u>Change in net assets</u> | (129,765) |
| <u>Net assets (deficit)-beginning of year</u> | <u>(685,007)</u> |
| <u>Net assets (deficit)-end of year-Note 5</u> | <u>(814,772)</u> |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Enterprise</u> |
|---|-------------------|
| <u>Cash flows from operating activities:</u> | |
| (Loss) from operations | (219,589) |
| Adjustments to reconcile (loss) from operations to net cash (used) by operating activities: | |
| Depreciation and amortization | 92,605 |
| Changes in assets and liabilities: | |
| Accounts receivable | 1,851 |
| Prepaid expenses | 3,321 |
| Accounts payable | 4,067 |
| Customer deposits | <u>(2,395)</u> |
| Net cash (used) by operating activities | (120,140) |
| <u>Cash flows from noncapital financing activities:</u> | |
| Taxes collected | 104,439 |
| State revenue sharing | <u>2,046</u> |
| Net cash provided by noncapital financing activities | 106,485 |
| <u>Cash flows from capital and related financing activities:</u> | |
| Interest paid | (17,677) |
| Payments on bond principal | (41,283) |
| Net change in cash restricted for debt service | <u>6,060</u> |
| Net cash (used) by capital and related financing activities | (52,900) |
| <u>Cash flows from investing activities:</u> | |
| Certificates of deposit | 955 |
| Receipts of interest | <u>1,016</u> |
| Net cash provided by investing activities | <u>1,971</u> |
| <u>Net (decrease) in cash and cash equivalents</u> | (64,584) |
| <u>Cash and cash equivalents-beginning of year</u> | <u>126,757</u> |
| <u>Cash and cash equivalents-end of year</u> | <u>62,173</u> |

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Caddo Parish Sewerage District No. 2 ("the District") conform to accounting principles generally accepted in the United States of America, as applicable to local governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes and to the guidelines set forth in the Louisiana Governmental Audit Guide.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the Statement included the following:

The financial statements now include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The District was required to implement the general provisions of the Statement in the year ended June 30, 2002.

The following is a summary of certain significant accounting policies:

A. Financial Reporting Entity

The District is a component unit of the Parish of Caddo, Louisiana. The financial statements include all funds which are controlled by or are dependent on the District's Board of Supervisors. Control by or dependence on the Parish was determined on the basis of taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

B. Basic Financial Statements–Government-Wide Statements

The Sewerage District's basic financial statements include both government-wide (reporting the funds maintained by the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Accordingly, the District's sewerage usage and connection functions, including related debt service, are classified as business-type activities.

1. Summary of Significant Accounting Policies (Continued)

In the government-wide Statement of Net Assets, the business-type activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and liabilities. The District's net assets are reported in three parts – invested in capital assets, restricted net assets, and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of the District's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, which must be directly associated with the function. The net costs (by function) are normally covered by general revenue.

This government-wide focus is more on the sustainability of the Sewerage District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Basic Financial Statements–Fund Financial Statements

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District reports only one fund in the financial statements in this report as follows:

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Under the provisions of GASB Statement No. 20, the District has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues of the District consist principally of ad valorem taxes and fees for services relating to sewerage services. Interest income is recorded when earned. Fees for services are recorded when earned.

1. Summary of Significant Accounting Policies (Continued)

E. Fixed Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are stated at historical cost. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives by type of asset are as follows:

| | |
|-------------------------------|-------------|
| Treatment and disposal plant | 20-50 years |
| Sewer collection system | 10-50 years |
| Equipment | 5-15 years |
| Office furniture and fixtures | 15 years |

Long-term liabilities expected to be financed from the operations of the enterprise fund are accounted for in that fund.

F. Cash and Cash Equivalents

Cash and cash equivalents includes all cash on deposit with maturities when acquired of three months or less.

G. Capitalization of Construction Period Interest

The amount of interest cost capitalized is equal to the average amount of accumulated expenditures multiplied by the average interest rate on the general obligation bonds outstanding for the period during which construction occurs.

H. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

2. Ad Valorem Taxes

Ad valorem taxes are recorded as received. Such taxes are levied by the District in November of each calendar year and are due by December 31 of that year on the assessed valuation of property located within the District's boundaries. Hence, even though taxes for January 1 through June 30 are measurable as of June 30, they do not meet the "availability" criteria for accrual since they are not due within 60 days of the District's fiscal year-end. Accordingly, such taxes are not recorded until received.

2. Ad Valorem Taxes (Continued)

During the year ended June 30, 2011, ad valorem taxes received were based on 2010 net taxable value of \$6,348,000. The total millage rate for the calendar year 2010 was 16.98 mills, all of which was for maintenance and operations.

3. Property, Plant and Equipment

The following is a summary of property, plant and equipment accounts and related accumulated depreciation:

| | |
|-------------------------------|--------------------|
| Office furniture and fixtures | 4,299 |
| Office equipment | 19,070 |
| Building and improvements | 50,132 |
| Sewerage collection system | 1,075,803 |
| Treatment and disposal plant | <u>1,194,361</u> |
| | 2,343,665 |
| Less-accumulated depreciation | <u>(1,825,001)</u> |
| | 518,664 |
| Real estate and right-of-ways | <u>56,251</u> |
| | <u>574,915</u> |

4. Certificate of Indebtedness

On July 16, 2009, the District sold \$400,000 of certificate of indebtedness for the purpose of refunding the outstanding balance of the Series 2003 certificates of indebtedness and financing sewer line extensions. Outstanding certificates of indebtedness amount to \$318,412 at June 30, 2011, with interest at the rate of 4.85%. Future required debt service payments, including interest of \$80,696, are as follows at June 30, 2011:

| | <u>Debt</u> <u>Payments</u> | <u>Interest</u> <u>Payments</u> | |
|-----------|--------------------------------|------------------------------------|----------------|
| 2012 | 42,284 | 15,443 | 57,727 |
| 2013 | 43,309 | 13,392 | 56,701 |
| 2014 | 44,360 | 11,292 | 55,652 |
| 2015 | 45,435 | 9,140 | 54,575 |
| 2016 | 46,537 | 6,937 | 53,474 |
| 2017-2018 | <u>96,487</u> | <u>7,047</u> | <u>103,534</u> |
| | <u>318,412</u> | <u>63,251</u> | <u>381,663</u> |

The certificate of indebtedness is secured by the excess of annual revenues of the District above statutory, necessary and usual charges in each fiscal year during which the certificate is outstanding, and any other legally available excess revenues of the District.

5. Cash

Cash amounts on deposit did not exceed FDIC insured limits at June 30, 2011.

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's deposits might not be recovered. The District currently has no policy to require collateralization with securities owned by the pledging institution for those amounts of deposits in excess of federal depository insurance amounts, as it monitors its deposits to determine that they remain within insurance limits.

SUPPLEMENTARY INFORMATION

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF INSURANCE IN FORCE

JUNE 30, 2011

Coverage

| | |
|----------------------------------|------------------|
| General liability | <u>3,000,000</u> |
| Employee dishonesty | <u>25,000</u> |
| Computer insurance | <u>10,000</u> |
| Building coverage (4126 Rainier) | <u>40,000</u> |
| Vehicle liability | <u>1,000,000</u> |
| Directors and officers liability | <u>1,000,000</u> |
| Terrorism | <u>1,000,000</u> |

UNAUDITED

CADDO PARISH SEWERAGE DISTRICT NO. 2
SCHEDULE OF PER DIEM PAID TO BOARD OF SUPERVISORS
FOR THE YEAR ENDED JUNE 30, 2011

| <u>Board Member</u> | <u>Meetings Attended Regular</u> | <u>Total Per Diem</u> |
|---------------------|--|---------------------------|
| Keenan Borland | 12 | 720 |
| James Anderson | 12 | 720 |
| Larry Dale Jackson | 11 | 660 |
| Jay Waalk | 12 | 720 |
| Gerald Fussell | 8 | <u>480</u> |
| Total per diem paid | | <u>3,300</u> |

OTHER REPORTS

HEARD, McELROY, & VESTAL

CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET, SUITE 1525
SHREVEPORT, LOUISIANA 71101
318-429-1525 PHONE 318-429-2070 FAX

December 27, 2011

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

We have audited the accompanying financial statements of the business-type activities and the major fund of Caddo Parish Sewerage District No. 2 (the District), a component unit of the Caddo Parish Commission, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-01 to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the members of the Board of Supervisors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLC

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2011

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Parish Sewerage District No. 2.
2. One deficiency is reported, which is a material weakness.
3. No instances of noncompliance with laws and regulations are reported.
4. Caddo Parish Sewerage District No. 2 was not subject to a Federal Single Audit for the year ended June 30, 2011.

B. Findings - Financial Statement Audit

No. 2011-01 Auditor Preparation of Financial Statements

As is common in small operations, management has chosen to engage the auditor to propose certain year-end adjusting journal entries and to prepare the District's annual financial statements. Consistent with this decision, internal controls over the preparation of year-end adjusting entries and annual financial statements, complete with notes, in accordance with generally accepted accounting principles have not been established, nor does management have the ability to perform these functions in-house. Under generally accepted auditing standards, this condition represents a control deficiency that is also considered to be a material weakness in internal controls. This condition is intentional and results from management balancing the entity's financial complexity with the appropriate level of accounting expertise. It is not cost effective for the District to prepare its annual financial statements in-house.

Whether or not it would be cost effective to cure a control deficiency is not a factor in applying SAS 115's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all deficiencies reported under SAS 115. In this case both management and the auditor do not believe that curing the material weakness described above is cost effective or practical and, accordingly, do not believe that any corrective action is necessary.

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2011

No. 2010-01 Auditor Preparation of Financial Statements

Repeated as Finding 2011-01.